

Message Text

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ACTION EUR-12

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PASS TREASURY, CEA, FRB

E.O. 11652: N/A
TAGS: EFIN, CA
SUBJECT: FURTHER GOC FOREIGN BORROWING ANNOUNCED

1. SUMMARY. GOC ANNOUNCED APRIL 27 ARRANGEMENTS TO BORROW
1.5 BILLION DM. NEW STANDBY CREDIT OF ABOUT 1 BILLION
U.S. DOLLARS EXPECTED TO BE ANNOUNCED SOON. TOTAL FOREIGN
BORROWING IN FIRST FOUR MONTHS OF 1978 HAS BEEN ABOUT
2.2 BILLION CANADIAN DOLLARS. LATEST FEDERAL BORROWING
IS PROBABLY MOTIVATED BY DESIRE TO AVOID NEED TO BORROW
DURING FEDERAL ELECTIONS. END SUMMARY.

2. CANADIAN FINANCE MINISTER CHRETEN ANNOUNCED EVENING
APRIL 27 ARRANGEMENTS HAD BEEN MADE TO BORROW 1.5 BILLION
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DM THROUGH DEUTSCHE BANK OF HAMBURG. BORROWING WILL BE IN
THREE PARTS:

A. 600 MILLION DM FIVE YEAR NOTES BEARING COUPON OF 4.75
PERCENT, PRICED TO YIELD 4.86 PERCENT. NOTES WILL BE SOLD
THROUGH GROUP OF BANKS AND DEALERS LED BY DEUTSCHE BANK.

B. 500 MILLION DM SIX YEAR NOTES AT COST TO GOC IN DM OF 5.2 PERCENT.

C. 400 MILLION DM FOUR YEAR NOTES AT COST TO GOC OF 5.35 PERCENT. FOUR AND SIX YEAR NOTES WILL BE PLACED DIRECTLY WITH DEUTSCHE BANK.

3. CHRETIEN ALSO SAID GOC WAS NEGOTIATING "A LARGE U.S.

DOLLAR STANDBY CREDIT FACILITY WITH A GROUP OF AMERICAN AND OTHER FOREIGN BANKS. RATES FOR THE NEW FACILITY WILL BE BASED ON U.S. PRIME LENDING RATES AND FURTHER DETAILS WILL BE ANNOUNCED SHORTLY". WHILE NOT ANNOUNCED, AMOUNT OF U.S. DOLLAR STANDBY IS EXPECTED TO BE ABOUT 1 BILLION, AND LEADERS OF BANK CONSORTIUM TO BE CITY-BANK CORP.

4. BORROWING OF 1.5 BILLION DM (ABOUT 826,000 CANADIAN DOLLARS OR 723,000 U.S. DOLLARS) BRINGS TOTAL CANADIAN FEDERAL GOVERNMENT ISSUES ABOARD SO FAR THIS YEAR CLOSE TO 1.5 BILLION U.S. DOLLARS. ADDITION OF 1 BILLION U.S. DOLLARS TO EXISTING STANDBY ARRANGEMENTS BRINGS TOTAL STANDBY ARRANGED SO FAR THIS YEAR TO 3.5 BILLION U.S. DOLLARS. 750 MILLION OF STANDBY WAS DRAWN DOWN IN MARCH AND ANOTHER 500 MILLION WAS RUMORED TO HAVE BEEN DRAWN DOWN IN APRIL. THERE HAVE BEEN RUMORS THAT YEN AND/OR LIMITED OFFICIAL USE

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SWISS FRANC ISSUES BY THE FEDERAL GOVERNMENT ARE ALSO POSSIBLE THIS YEAR.

5. MOTIVE FOR GOC BORROWING NOW IN LARGE AMOUNTS MAY WELL BE THAT CONTINUED FOREX MARKET UNCERTAINTY AND NEED FOR INTERVENTION IS PROBABLE DURING PERIOD PRIOR TO FORTH-COMING FEDERAL ELECTIONS. FOREIGN BORROWING DURING CAMPAIGN IS JUDGED NOT TO BE ADVANTAGEOUS TO LIBERAL PARTY INCUMBENTS. PRIME MINISTER TRUDEAU HAS DELAYED ANNOUNCING ELECTION DATE SO FAR AS WIDELY EXPECTED, BUT SAID APRIL 27 HE WOULD SOON ANNOUNCE A DATE (PROBABLY JULY 3 OR JULY 10) OR POSTPONEMENT OF ELECTIONS UNTIL THE FALL.

6. DEPARTMENT OF FINANCE ESTIMATES NET LONG TERM FOREIGN BORROWING (UNDER ITS DEFINITIONS) BY CANADIAN ENTITIES IN THE FOUR MONTHS OF 1978 AT 2.2 BILLION CANADIAN DOLLARS, INCLUDING THE 750 MILLION U.S. DOLLAR GOC BOND ISSUE IN NEW YORK WHICH WAS SETTLED EARLIER THIS MONTH. FINANCE CONTINUES TO ESTIMATE TOTAL FOREIGN NET LONG TERM BORROWING DURING 1978 AT ABOUT 5 BILLION CANADIAN DOLLARS, INCLUDING THE GOC U.S. DOLLAR BOND ISSUE AND MAJOR CONSORTIUM BANK LOANS SUCH AS THE 750 MILLION EURODOLLAR LOAN TIED TO

LIBOR MADE EARLIER THISYEAR BY HYDRO QUEBEC. THESE
ESTIMATES DO NOT, HOWEVER, INCLUDE YESTERDAY'S DM ISSUES.
SETTLEMENT IS EXPECTED IN MAY OF A 50 MILLION EURODOLLAR
ISSUE BY NEWFOUNDLAND, A 200 MILLION SWISS FRANC ISSUE BY
MANITOBA, AND A 150 MILLION DM ISSUE BY QUEBEC. ENDERS

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